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IMPLEMENTATION OF THE BUSINESS PLAN IN ASIA AND THE PACIFIC

Report by the Director-General

Updates the information provided in document IDB.20/14, in compliance with decision IDB.20/Dec.9 and further to General Conference resolution GC.7/Res.8.

Introduction

1. Since the issuance of document IDB.20/14, submitted in response to General Conference resolution GC.7/Res.8, the most significant development in UNIDO activities for Asia and the Pacific has been the formulation of integrated programmes for selected countries. The present report highlights the status of country coverage in the region.

I. INTEGRATED PROGRAMMES

2. As an initial phase in the application of the new UNIDO service modules in Asia and the Pacific, integrated programmes have been developed for India, Sri Lanka and Thailand, while the programme for the Islamic Republic of Iran is currently under preparation. These will be followed by programmes for a second group of countries (Lao People's Democratic Republic, Nepal and Pakistan).

India

3. The automotive component industry in India is characterized by a large number of small entrepreneurial enterprises with low-volume production of varying quality. These conditions have, in part, inhibited effective vertical supply linkages from evolving between tier component suppliers at different levels of the supply chain, thus creating a highly fragmented market through which automobile manufacturers must operate. Low local content and domestic value added of new automobiles on the road in India is a testimony to this fact.

4. In response, UNIDO has taken the leadership in developing a partnership programme linking multinational corporations, local and international non-governmental organizations, universities and the Government. India is the first country in which the programme is being applied, with the objective of strengthening the supply chain among small and medium enterprises in the automotive component sector through technical cooperation. Under

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the auspices of the Government of India, the partnership consists of the Fiat Group, the European Institute of Business Administration (INSEAD), the Prince of Wales Business Leaders Forum, the Automotive Component Manufacturers Association of India, the Automotive Research Association of India and UNIDO.

5. The programme takes advantage of the wealth of know-how, technology and experience of each partner as a building block for the formulation and delivery of an integrated package of solutions for the automotive component sector. Through a demonstration approach, supported by inter- and intra-regional outreach programmes, expert advice in areas such as management, quality, productivity, market access, supply-chain and partnership identification, employment, and socially responsible investment, are provided to local enterprises at the shop-floor level. The programme expects to help increase the capability to produce export-quality components as well as the number of small and medium component suppliers producing such quality products. Small and medium enterprises in India will benefit from being linked to the subcontracting networks of multinational corporations.

Islamic Republic of Iran

6. Over-dependence on oil and gas exports has rendered the country's economy highly vulnerable to fluctuations in international energy prices, and has imposed a severe constraint on the Government during the past two decades. A diversification of the country's export structure through the concerted development of its export-oriented manufacturing capacity could offer a viable alternative, as also stipulated in the country's Second Socioeconomic and Cultural Development Plan, by increasing the resilience of its economy against external shocks, supporting employment creation and technological innovation, and adding domestic value to its rich natural resource base, thereby enhancing overall economic performance.

7. In this context, the objective of the integrated programme is to design and implement a package of technical cooperation services for the industrial sector which will enhance the entire socio-economic development effort of the country. To this effect, agreement was reached with the national authorities on the nature, scope and focus of the proposed integrated package, and commitment and ownership were secured from the national counterparts. A draft package of services is currently under formulation comprising the following components: (a) strengthening institutional capacities in support of small and medium enterprises; (b) modernizing agro-based industries; (c) industrial energy efficiency; (d) environment protection; and (e) capacity-building in industrial investment.

8. This draft approach will be critically examined and adjusted to rationalize and create synergy among the various components proposed for inclusion in the integrated programme.

Sri Lanka

9. Recognizing the achievements made by the country in recent years, and with the ambition of becoming classified as a "newly industrialized country" early in the next century, the Government requested UNIDO assistance in formulating an integrated industrial development support programme. Based on the analysis of the country situation and discussions with respective government and private sector organizations, a comprehensive industrial development support programme has been formulated, based on the following approach:

(a) Cooperating with and providing substantive complementary technical inputs to the ongoing Master Plan for Industrialization and Investment Promotion of the Japan International Cooperation Agency (JICA). UNIDO intervention would lead in particular to the formulation of a new industrial policy, restructuring and capacity-building at the Ministry of Industrial Development, improving capabilities in the area of industrial statistics and benchmarking, and carrying out pilot restructuring activities in the apparel and leather sectors;

(b) The success of recent years in the manufacturing sector is largely due to the phenomenal growth of apparel exports, aided partly by the Multifiber Agreement. The Agreement will be abolished in the year 2005, and the apparel subsector will be exposed to competitive pressures. It is necessary to develop a strategy and a support framework to enhance the competitiveness of the apparel sector to effectively face the emerging threat;

(c) The realization of the key development objectives in the country—poverty alleviation, employment generation and regional development—relies on rural industrialization and vigorous promotion of micro, small and medium enterprises. Significant assistance is required in developing the capacities and capabilities related to the promotion and development of these enterprises.

Thailand

10. The financial crisis of July 1997 rapidly spread to the real economy, where it exposed major structural deficiencies. In response to the crisis and to mitigate its social effects, the Government launched a multi-pronged restructuring programme encompassing the financial, social, agricultural and industrial sectors. With regard to the industrial sector in particular, the Government is undertaking a major effort to restore the competitiveness

of domestic firms. The Government called upon UNIDO to support its industrial recovery efforts, with a broad range of cooperation requests.

11. The programme represents UNIDO's integrated response, and covers the following priority components: (a) industrial restructuring for competitiveness; (b) agro-based industries with emphasis on leather, wood and food; and (c) cleaner environment. The components will be promoted on a priority basis and UNIDO has allocated funds for preparatory assistance activities. Two support components have been identified and will be promoted at a later stage, subject to availability of funds: investment promotion, and monitoring the socio-economic impact of the Industrial Restructuring Master Plan.

II. FUNDS MOBILIZATION

12. To ensure success in the implementation of the integrated programmes, particular attention is being devoted to the mobilization of financial resources. In this regard, UNIDO has allocated seed money for all programmes. Furthermore, all recipient countries and UNIDO have jointly developed and started implementing funds mobilization activities. While funding opportunities and type of donors vary from country to country, a common feature of all has been the effort of recipient countries to assist in identifying and accessing funds available at the country level, particularly from bilateral sources. In this context, the promotion of the programme for Sri Lanka has been particularly successful. Through the strong commitment of the Government towards the integrated programme approach and the cooperation activities identified jointly with UNIDO, a total of some $2.1 million has been mobilized in a relatively short period of time.

13. As the next step, it is recommended that Member States support UNIDO in pursuing a similar approach for other countries and that they ensure the same level of commitment in order to translate the integrated programmes into action and provide impact at the country level.

14. Furthermore, it is recommended that recipient countries assist UNIDO in identifying and accessing other funds available at the country level, particularly from UNDP, the World Bank and other development finance institutions as well as the European Union. Official requests from the recipient country are a precondition for accessing funds from these institutions.

15. Beneficiaries of integrated programmes, particularly middle income countries, should also contribute through cost-sharing as an indication of their commitment to and ownership of the activities jointly developed and as a leverage for the mobilization of bilateral and multilateral funding.

16. Finally, it is important to note that in Asia and the Pacific UNIDO has identified considerable potential for playing an important role in supporting Governments and UNDP in the identification and formulation of capacity-building projects suitable for financing by the Global Environment Facility (GEF). Such programme components are in line with the focus area of GEF relating to climate change (energy efficiency and rural energy development), an area which, according to the findings and recommendations of the last Council of GEF, requires building a stronger pipeline of eligible projects. UNIDO appeals to its Member States to support the Secretariat's efforts to expand cooperation with GEF both at the national level as well as the level of GEF headquarters.

III. ACTION REQUIRED OF THE CONFERENCE

17. The Conference may wish to take note of the information provided in document IDB.20/14 as well as in the present report.